


ANNUAL STATEMENT TRAINING

Calendar Year 2015



Harry Chadwick | Chief Auditor
PERAC
Winter 2016

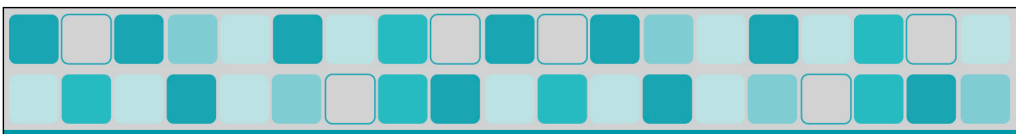


Who Does What for the Annual Statement?

- Signature Page
- Balance Tests
- Assets & Liabilities
- Changes in Fund Balances
- Receipts
- Disbursements
- Investments Income
- Schedule A, AR, AP
- Membership statistics
- Supplemental Membership Schedule
- ARF Interest

→ Directly provided primarily by the vendor application

2




Supporting Schedules

- Schedule 1: Cash, all bank accounts
- Schedule 2: Short term invested funds
- Schedule 3, A, B, C: Fixed Income Securities
- Schedule 4, A, B, C: Equities, managers
- Schedule 5: Pooled Funds

→ Directly provided primarily by the custodian in excel, file on CD?

3


NOTES:



System Created Schedules

- Schedule 6 in excel:
 - Summary of Investments Owned by Category
- Schedule 7 in excel:
 - Summary of Investment Related Fees for ALL Managers/Vendors listed and doing any business during the year with the plan, system or Board

4




Due by May 1, 2016

- Sunday filing deadline
- Do you establish a schedule to meet the multiple filing obligations for early 2016?
- Is May 1st a realistic deadline? (120 days)

5

NOTES:

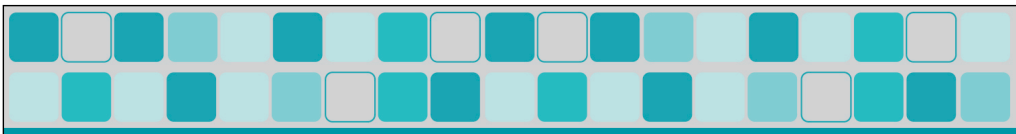


2015 Year End Closing Schedule

Form 1099R's completed, mailed to recipients	1/29/2016
Form 1099R's finalized, filed with IRS	2/29/2016
December Cashbook and Pre-closing Trial Balances	3/1/2016
Final 2014 Post-closing Annual Statement complete	3/31/2016
Submitted to Board for signatures	April monthly meeting
Final Version due at PERAC	5/1/2016

Help desk available for e-mail inquiries: AnnualStatement@per.state.ma.us

6




Reading Material Available

- **Preparing the Annual Statement;** step by step instructions
- **Sample Annual Statement;** displays source information and cross references line by line
- **A blank Annual Statement**
- **Annual Statement Review/Guidelines**

➔ Available on the PERAC website, www.mass.gov/PERAC

7


NOTES:



If You Need An Extension

- Compose a letter to Joseph Connarton, PERAC's Executive Director prior to May 1, 2016
- Extension may be granted for 30 day period
- You must provide particulars so we can assess the level of assistance required
- You will also be required to reasonably estimate an ultimate filing date

8

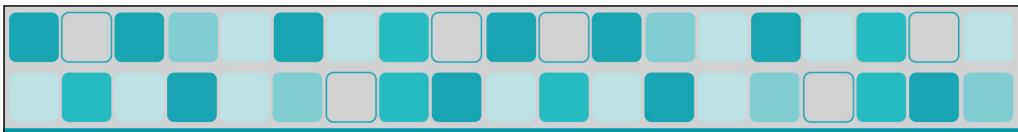


Electronic Filing Option Available

- Interchange File Transfer website
<https://ics.mass.gov/DynIC>
- Address to User: AnnualStatement@per.state.ma.us
- Annual Statement
 - Format preferred .csv
 - Format acceptable excel (.xlsx, .xls)
 - Format acceptable .pdf

9

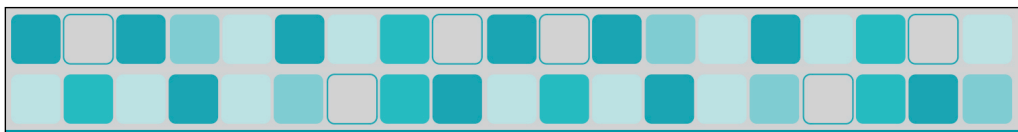
NOTES:



Signature Page and Board Minutes Confirmation

- Even if a Board submits the Annual Statement electronically, original signatures are still required
- Board minutes should reference the Annual Statement presented, approved
- Excerpt should be mailed with the Signature page
- Identify the Chair, identify the terms

10




The Usual Suspects

- Supplemental schedule total did not agree with the ASF on the balance sheet
- ARF calculation missing/not included
- Signature page submitted, missing or incomplete information
- Balance Tests did not compute
- Realized/Unrealized Gains/Losses did not agree with Schedules attached

11


NOTES:



Commission Recapture and Settlement of Securities Litigation

- The original intent to distinguish from invested funds
- Trend declining to recapture commissions
- Securities litigation, active and passive
- Combine these two sources of income

12

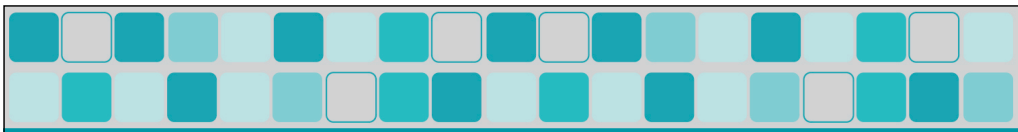


Schedule 7

- Reported results agreed with management fees
- Systems reported management fees only on Schedule 5
- Did not file a Schedule 7 at all
- Did not disclose the payment method as either N, C, W (Net, Check, Wire)

13

NOTES:



Buybacks as Assets

- Systems that allow for extended installment payments (not lump sum)
 - Allow for payroll deductions over 3-5 years
 - Secure employee agreement for deductions
 - Obtain a signed agreement for the file
 - Repayment is virtually assured
- Annual assessment of recovery conditions, debit to A/R, credit to #4893 Members' makeup payments

14




PERAC Memo #23/2012

- Service Purchases, Ch 176, 2011, Sec 9
- Amends G.L. c. 32 Sec 3(8)(b)
- Actuarially assumed interest (7% - 8.5%)
- Buyback Interest = $\frac{1}{2}$ actuarial rate
- Completes or enters into installment agreement by end of first year
- Agreement term cannot exceed 5 years

15


NOTES:



Reinstatements to Service

- An Annuity recovery portion
- A Pension recovery portion
- The Annuity portion will affect the calculation of ARF interest at .0025 that month

16

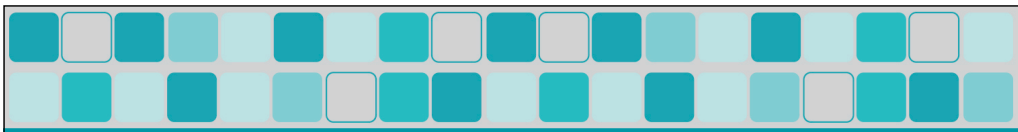


91A Recoveries

- #4841 Recovery of 91A Overearnings
- You can use #4841 for the Recovery of 91(b), as well
- Closes to the Pension Fund balance #3296
- Does not affect the ARF interest calculation

17

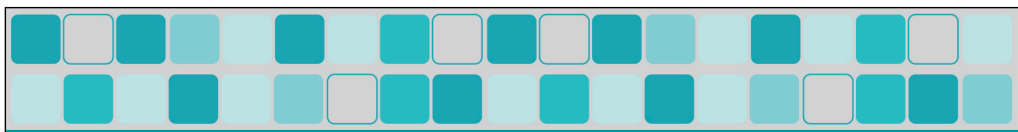
NOTES:



Professional Services

- Investment
- Actuarial (5316)
- Legal
- Accounting (5317)
- Auditing (5317)
- GASB #67/#68 implementation fees (5317)
- Other, special study engagements

18




Changes In Fund Balances

- Upper portion and Lower portion of page
- All interfund transfers must be listed (lower portion)
- Must agree with the totals reported in the upper portion

19


NOTES:



COLA Benefits Reimbursed by the Commonwealth

- Retirees eligible between 1981 through 1996
- #4899 for receipts, easy
- #5752 largely ignored
- Where is the attrition?
- Are the listed retirees/survivors alive?
- You may owe funds back

20



Subsidy for COLA's

- 4899: Received from Commonwealth for COLA & Survivor Benefits
 - 101 Boards reported receipts in #4899
 - 57 Boards had no provision reported in #5752
 - 78 Boards reported some provision less than received
 - 13 Boards reported paid more than received
 - 14 Boards matched the receipt with the provision

21

NOTES:



Schedules

- Schedule A: use the Date column, confirm you do not carryover from prior year report
- Schedule 1: include all Cash accounts
- Schedule 2: Short Term definition?
- Schedules 1-5 in excel format from custodian
- Construct Schedule 6 yourself
- Construct Schedule 7 yourself

22




Other Schedules

- Schedule 5: systems did not prepare, submit or blank
- Schedule 6: systems did not prepare, submit or blank
- Schedule 7: systems did not prepare, submit or blank, systems did not include all managers listed

23

NOTES:



Avoid Negative Fund Balances

- Pension Fund (PF) benefits paid out exceed the PF receipts
- PF is depleted to a negative (Debit) balance
- PERAC Appropriation Letter authorizes transfer from the Pension Reserve Fund (PRF) to the PF to offset
- Revisit prior Appropriation Letters to accumulate transfers
- If insufficient, contact PERAC Actuarial Unit

24




Do We Need New Accounts?

- Staff fringe benefits, Medicare, Health
- Information Technology Expenses
- GASB #67/#68 implementation and/or audit
- 3% Refunds (contrast w/#5757)
- Different types of Insurance:
 - Fidelity, Fiduciary, W/Comp, Health, Property

25


NOTES:



Other Stuff

- #4895 Pension Reserve Appropriation
- #4893/#4900 Member Payments from Rollovers; do we need this distinction?
- #4841 Recovery of ANY Overearnings or Overpayments from the PF
- #5751 - why not create separate accounts?
- #4821 - why not create separate accounts?
- Commission Recapture, declining
- Combine with Securities Litigation Recoveries

26



For Board Members

- What is the Financial Position of this Plan?
 - Sound?
 - Weak?
 - Precarious?

27

NOTES:




- The median (average) for all 102 systems was 0.7716
- The mean (middle) for all 102 systems was 0.7605
 - 6 systems less than .50
 - 41 systems less than .75
 - 44 systems under 1.00
 - 11 systems over 1.00

→ A basic indicator of efficiency?

Management Fees

- Represent 75% - 85% of Expense Fund
- Trending higher due to increases in investment values
- Analyze to identify high (expensive) investment sectors, compared to returns


NOTES:



What Do I Know?

- Board members delegate ALL responsibility to Retirement Administrator
- Retirement Administrator relies on the application provided by the vendor
- Where does the buck stop?

30

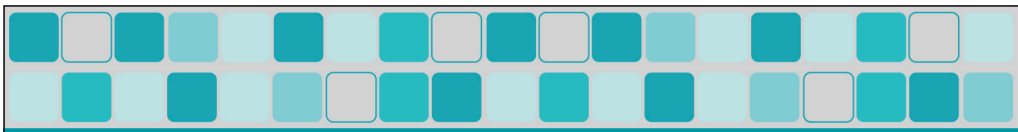


Questions A Board Member Should Ask?

- Would You Lend Money to this Plan?
- Would You Invest Your Own Money in this Plan?
- Did the Plan Advance or Decline?
- How can I tell?
- What is the Bottom-line?

31

NOTES:



Cash Flow

- What is required to fund current benefits?
- Are the contributions from members enough?
- What if I add in the Appropriations from the Employer?
- Do we really need the income generated from our investments?

32




Do the Financial Statements Tell the Story?

- Does it explain how and why the obligations of the Plan have changed during the year?
- Does it indicate the extent to which the obligations are covered by the assets of the Plan?
- How does this Plan compare with other similar Plans?
Same method in the valuation.
- Is the Plan keeping pace with the Actuarial assumptions?
- Is the Investment strategy working?

33

NOTES:




Financial Highlights

- How is the Plan performing?
- 1 year, 5 years, 10 years, 29 years
- Do we have a margin?
- Average benefit paid out (# of retirees/total benefits paid Annuity + Pensions)
- What do we need to cover current benefits
- Plus current overhead = Expense Fund

➔ Is this the breakeven point?

34



Market Conditions

- Money weighted Rates of Return on Plan Assets
Determine Investment Returns by category of asset:
 - Cash and Cash Equivalents
 - Short Term investments
 - Fixed Income Securities
 - Equities
 - Pooled Funds

35

NOTES:



- 36

COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

Phone: 617-666-4446 | Fax: 617-628-4002

TTY: 617-591-8917 | Web: www.mass.gov/perac

